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SIPDIS

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SUBJECT: ECONOMIC FORECAST FOR ITALY 2002-2003: JUNE
2002 PREDICTIONS

REF: (A) ROME 02794,
(B) 02 TREAS 101720Z, (C) 02 ROME 462

¶1. SUMMARY. THE ITALIAN ECONOMY IS LIKELY TO REMAIN SOMEWHAT WEAK OVER THE FORECAST PERIOD. GDP GROWTH IS EXPECTED TO BE AN ANEMIC 1.3 PERCENT IN 2002. THE GLOBAL ECONOMIC UNCERTAINTY CONTINUES TO DAMPEN ITALIAN EXPORTS, AND HEIGHTEN CONSUMER UNCERTAINTY. THE CONVERSION TO THE EURO HAS PUSHED UP INFLATION TO 2.4 PERCENT. THE GOVERNMENT HAS YET TO RESOLVE THE PROBLEM OF A SPIRALING PUBLIC DEFICIT. OPPOSITION FROM TRADE UNIONS, WHICH HAVE PLAYED A KEY ROLE IN SOCIAL AND ECONOMIC POLICY-MAKING, HAS STALLED PROGRESS ON KEY LABOR AND ECONOMIC REFORMS. THE GOVERNMENT NEEDS TO IMPLEMENT THE RIGHT MIX OF FISCAL POLICIES AND BEGIN TO ENACT SIGNIFICANT REFORMS FOR ECONOMIC RECOVERY TO BE STRONG. END SUMMARY.

GDP GROWTH: 2002

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¶2. GDP GROWTH IN ITALY CONTINUES TO DECELERATE. THE GLOBAL ECONOMIC SLOWDOWN IS HURTING ITALIAN EXPORTS TO ITS MAJOR MARKETS: THE U.S. AND GERMANY. CONCERN ABOUT GLOBAL ECONOMIC CONDITIONS AND SIGNS OF INCREASED INFLATION HAVE DEPRESSED CONSUMER DEMAND. EVEN THE ANEMIC GDP GROWTH IN 2001 OF 1.8 PERCENT MAY SURPASS GROWTH IN 2002. THE MOST PESSIMISTIC FORECAST IS A GROWTH RATE OF 1.3 PERCENT. THE GOVERNMENT MAINTAINS THAT GROWTH WILL BE AROUND 2.3 PERCENT, BUT HAS CONCEDED THAT IT COULD BE AS LOW AS 1.3 PERCENT.

¶3. THE LATEST DATA ON INDUSTRIAL PRODUCTION ARE DISAPPOINTING. ON A YEARTO-YEAR BASIS, INDUSTRIAL PRODUCTION CONTINUES TO REGISTER A DECLINE. IN THE FIRST FOUR MONTHS OF 2002, INDUSTRIAL PRODUCTION WAS DOWN 3.5 PERCENT OVER THE CORRESPONDING PERIOD OF PREVIOUS YEAR. APRIL HOLIDAYS AND THE GENERAL STRIKES HAD A NEGATIVE EFFECT ON INDUSTRIAL PRODUCTION THAT POSTED AN ANEMIC 0.5 PERCENT INCREASE IN APRIL. A MODEST RECOVERY IS EXPECTED IN MAY. (NOTE: 17 MILLION HOURS HAVE BEEN LOST TO STRIKES THROUGH APRIL 2002, UP 1,317.4 PERCENT OVER THE CORRESPONDING PERIOD OF 2001.) EVEN WITH BETTER RESULTS IN MAY, INDUSTRIAL PRODUCTION THROUGH THE FIRST FIVE MONTHS OF 2002 STILL WOULD BE ONE TO TWO PERCENT BELOW THE CORRESPONDING PERIOD IN 2001.

¶4. ON THE DEMAND SIDE, CONSUMER CONFIDENCE IS FALLING, AFTER RISING IN THE FIRST THREE MONTHS OF 2002, TO LEVELS SIMILAR TO THOSE IMMEDIATELY FOLLOWING
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SEPTEMBER 11. A SIGN OF THE TIMES: CAR SALES DROPPED BY 11 PERCENT FROM APRIL TO MAY AND BY 12.7 PERCENT FROM JANUARY TO MAY OVER 2001 SALES. CONSUMERS ARE INCREASINGLY CONCERNED ABOUT THE ECONOMIC SITUATION IN GENERAL AND ABOUT INCREASED INFLATION IN PARTICULAR.

¶5. THESE TRENDS, IF THEY CONTINUE, WOULD DECELERATE GDP GROWTH FROM THE 1.8 PERCENT REGISTERED IN 2001 TO 1.3 PERCENT IN 2002. THIS IS FAIRLY IN LINE WITH THE AVERAGE GROWTH RATE IN THE EURO AREA, BUT HIGHER THAN GERMANY. ACCORDING TO THE CONSENSUS FORECAST OF ITALIAN RESEARCH INSTITUTIONS, EVEN IF GDP GROWTH ACCELERATED IN THE LAST QUARTER OF 2002, GDP GROWTH WILL NOT MAKE UP GROUND LOST IN 2001. THE CONSENSUS FORECAST, WHICH WE SHARE, IS THAT GDP GROWTH IN 2002 WILL BE 1.3 PERCENT.

¶6. TWO OTHER COMPONENTS OF DOMESTIC DEMAND, PRIVATE CONSUMPTION AND INVESTMENT, WILL SUPPORT WHATEVER GDP GROWTH OCCURS. PRIVATE CONSUMPTION IS EXPECTED TO ACCELERATE SLIGHTLY FROM 1.1 PERCENT IN 2001 TO 1.3 PERCENT IN 2002, WHILE INVESTMENT IS EXPECTED TO

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EAP-00 EUR-00 EXIM-01 E-00 UTED-00 FOE-00 VC-00
FRB-00 IPS-01 H-01 TEDE-00 INR-00 ITC-01 AC-01
NSAB-00 OMB-01 OPIC-01 ACE-00 SP-00 SSO-00 STR-00
TEST-00 TRSE-00 USIE-00 FMP-00 G-00 SAS-00 /008W
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FM AMEMBASSY ROME
TO DEPT OF TREASURY WASHDC PRIORITY
SECSTATE WASHDC 4273
INFO USDOC WASHDC
DEPT OF LABOR WASHDC
EU MEMBER STATES COLLECTIVE

AMEMBASSY OTTAWA
USEU BRUSSELS 2707
AMEMBASSY TOKYO
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ACCELERATE FROM 2.4 PERCENT IN 2001 TO 2.5 PERCENT THIS YEAR. HOUSEHOLD CONSUMPTION IS EXPECTED TO INCREASE SLIGHTLY AS A RESULT OF THE MINOR INCREASE IN WAGES. THESE INCREASED WAGES ARE, HOWEVER, PARTLY OFFSET BY LOSS IN INCOME FROM STOCKS. (NOTE: STOCK INDICES DROPPED 25.1 PERCENT IN 2001). CONSUMPTION WILL ALSO BE TEMPERED BY INCREASED INFLATION, WHICH IS A RESULT OF HIGHER OIL PRICES, AND THE IMPACT OF THE ECONOMIC CRISIS IN ARGENTINA. (NOTE: THE LEADING CONSUMER ASSOCIATIONS ESTIMATE THAT 450,000 PRIVATE ITALIAN INVESTORS HOLD ARGENTINE ASSETS.)

17. PUBLIC CONSUMPTION IS EXPECTED TO DECLINE IN 2002. THE CENTRAL GOVERNMENT HAS IMPOSED EU-MANDATED BUDGET TARGETS ON REGIONAL AND LOCAL GOVERNMENTS. THEIR PUBLIC CONSUMPTION, AS A SHARE OF GDP, IS EXPECTED TO DECLINE FROM 17.6 PERCENT IN 2001 TO 17.4 PERCENT IN 2002.

OUR FORECAST

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GDP COMPONENT AS PCT OF GDP2001 2002

PRIVATE CONSUMPTION	59.8	59.8
PUBLIC CONSUMPTION	17.6	17.4
INVESTMENT	20.8	21.0
0.80	21.0	
INVENTORIES	-0.2	-0.1
EXPORTS	30.3	30.3
IMPORTS	28.3	28.5
GDP	100.0	100.0

18. AS A RESULT OF THESE TRENDS, OVERALL CONSUMPTION, BOTH PUBLIC AND PRIVATE, WILL DECELERATE FROM 2001 LEVELS. (NOTE: OVERALL CONSUMPTION IS THE RESULT OF PRIVATE CONSUMPTION ACCELERATING FROM 1.1 PERCENT TO 1.3 PERCENT AND PUBLIC CONSUMPTION DECELERATING FROM 2.1 TO 0.1 PERCENT. END NOTE.)

19. PRIVATE INVESTMENT IS EXPECTED TO BE UP, PRIMARILY AS A RESULT OF TAX INCENTIVES PROVIDED IN THE TREMONTI LAW. THIS LAW GIVES TAX BENEFITS FOR REINVESTED PROFITS. INVESTMENT GREW 2.4 PERCENT IN 2001 AND IS EXPECTED TO INCREASE BY 2.5 PERCENT BOTH IN 2002 AND 2003. THE EFFECTS OF THE TREMONTI LAW ARE EXPECTED TO BE GREATEST IN THE LAST HALF OF 2002 AND FIRST HALF OF 2003. THE BENEFICIAL IMPACT OF THE TAX INCENTIVES ON PRIVATE INVESTMENT WILL BE PARTLY OFFSET BY THE EXPECTED DECELERATION IN PUBLIC INVESTMENTS.

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10. GDP IS EXPECTED TO ACCELERATE GRADUALLY TO 2.4 PERCENT IN 2003, SUPPORTED BY DOMESTIC DEMAND AND A RECOVERY OF EXPORTS. REDUCED INFLATIONARY PRESSURES AND IMPROVEMENT IN THE STOCK MARKET ARE EXPECTED TO BOOST HOUSEHOLD INCOME AND PRIVATE CONSUMPTION. CONSUMPTION MAY BE SLIGHTLY TEMPERED, HOWEVER, BY THE EXPECTED INCREASE IN INTEREST RATES. AS A RESULT OF THESE TRENDS, PRIVATE CONSUMPTION IS EXPECTED TO ACCELERATE FROM 1.3 PERCENT IN 2002 TO 2.5 PERCENT IN 2003.

11. THE ELIMINATION OF THE TAX DEDUCTION FOR HOME REMODELING IN 2003 IS EXPECTED TO REVERBERATE NEGATIVELY ON INVESTMENT IN CONSTRUCTION. PUBLIC INVESTMENT ALSO IS EXPECTED TO DECELERATE IN 2003.

FOREIGN TRADE

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ACTION EB-00

INFO	AID-00	CEA-01	CIAE-00	CTME-00	DODE-00	WHA-00
EAP-00	EUR-00	EXIM-01	E-00	UTED-00	FOE-00	VC-00
FRB-00	IPS-01	H-01	TEDE-00	INR-00	ITC-01	AC-01
NSAE-00	OMB-01	OPIC-01	ACE-00	SP-00	SSO-00	STR-00
TEST-00	TRSE-00	USIE-00	FMP-00	G-00	SAS-00	/008W

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FM AMEMBASSY ROME

TO DEPT OF TREASURY WASHDC PRIORITY
SECSTATE WASHDC 4274
INFO USDOC WASHDC
DEPT OF LABOR WASHDC
EU MEMBER STATES COLLECTIVE
AMEMBASSY OTTAWA
USEU BRUSSELS 2708
AMEMBASSY TOKYO
AMCONSUL MILAN
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12. OVER THE FORECAST PERIOD, EXPORTS ARE EXPECTED TO RECOVER ONLY WHEN GLOBAL ECONOMIC CONDITIONS IMPROVE, WHICH IS EXPECTED IN THE SECOND HALF OF 2002. THE APPRECIATION OF THE EURO VIS--VIS THE DOLLAR WILL, HOWEVER, RESTRAIN EXPORT GROWTH. IMPORTS ARE EXPECTED TO GROW FASTER THAN EXPORTS AS A RESULT OF PURCHASES OF INVESTMENT GOODS ENCOURAGED UNDER THE TREMONI LAW -- AND THE RECOVERY OF DOMESTIC DEMAND AND THE EUROS REVALUATION.

¶13. THE CURRENT ACCOUNT REGISTERED A .2 BILLION EURO DEFICIT, OR 0.01 PERCENT OF GDP IN 2001, FOLLOWING A 6.3 BILLION EURO DEFICIT, OR 0.5 PERCENT OF GDP IN ¶2000.

¶14. LATEST FOREIGN TRADE DATA FOR 2002 SHOW A MODEST DECLINE THROUGH MARCH 2002. EXPORTS DROPPED 7.1 PERCENT, WHILE IMPORTS DECREASED BY 7.8 PERCENT.

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EXPORTS TO EU COUNTRIES DECREASED BY 8.6 PERCENT,
WHILE IMPORTS FROM THE EU DECREASED BY 6.7 PERCENT.
EXPORTS TO GERMANY FELL THE MOST, DOWN 14.2 PERCENT
THROUGH MARCH 2002 OVER THE CORRESPONDING PERIOD IN
2001. (NOTE: THIS IS BAD NEWS FOR ITALIAN EXPORTERS,
SINCE GERMANY IS THEIR NUMBER ONE EXPORT MARKET.)
EXPORTS TO NON-EU COUNTRIES DID NOT FALL AS MUCH.
ACCORDING TO THE LATEST ISTAT (ITALIAN CENTRAL BUREAU
OF STATISTICS) DATA, ITALIAN EXPORTS TO ALL NON-EU
AREAS (USA, TURKEY AND THE FOUR SOUTH AMERICAN
N
COUNTRIES OF MERCOSUR INCLUDED) DROPPED BY FIVE
PERCENT IN THE FIRST FOUR MONTHS OF 2002 OVER THE
CORRESPONDING PERIOD IN 2001. THIS IS THE RESULT OF A
DECLINE IN EXPORTS TO MERCOSUR (DOWN 40 PERCENT
THROUGH APRIL), ASIA (DOWN 12.3 PERCENT) AND THE
UNITED STATES (DOWN 8.3 PERCENT), COMBINED WITH
INCREASES REGISTERED IN EXPORTS TO RUSSIA (28.1
PERCENT THROUGH APRIL), OTHER EUROPEAN COUNTRIES (13.1
PERCENT) AND OPEC COUNTRIES (UP 10.8 PERCENT).

¶15. THE LATEST BALANCE OF PAYMENTS DATA SHOW THAT THE CURRENT ACCOUNT REGISTERED A 2.15 BILLION EURO DEFICIT THROUGH MARCH 2002 COMPARED TO A 2.01 BILLION EURO DEFICIT IN THE CORRESPONDING PERIOD IN 2001. THIS IS THE RESULT OF A 245 MILLION EURO IMPROVEMENT IN THE TRADE ACCOUNT, COMBINED WITH A 384 MILLION EURO DECLINE IN INVESTMENT, INCOMES AND TRANSFER BALANCES OF THE CURRENT ACCOUNT.

¶16. HOWEVER, ITALY'S CURRENT ACCOUNT WILL LIKELY UNCLASSIFIED

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EXPERIENCE A SURPLUS OF 3.6 BILLION EUROS IN 2002,
EQUAL TO 0.5 PERCENT OF GDP, IF EXPORTS PICK UP AS A
RESULT OF A RECOVERY IN THE WORLD ECONOMY. A FURTHER
IMPROVEMENT IS ANTICIPATED IN 2003 WITH A 10.2 BILLION
CURRENT EURO ACCOUNT SURPLUS, EQUAL TO 0.8 PERCENT OF
GDP.

PUBLIC ACCOUNTS

117. THE GOVERNMENT DEFICIT WAS 1.4 PERCENT OF GDP IN 2001, 30 BASIS POINTS ABOVE THE GOI TARGET. THE HIGHER THAN EXPECTED PUBLIC DEFICIT WAS A RESULT OF LOWER THAN EXPECTED GDP GROWTH AND HIGHER THAN EXPECTED SPENDING, PARTICULARLY IN THE HEALTH SECTOR, SPENDING RELATED TO ITALIAN PARTICIPATION IN OPERATION ENDURING FREEDOM, AND ECONOMIC ASSISTANCE TO AFGHANISTAN AND PAKISTAN. DEFICIT-REDUCTION MEASURES, ESPECIALLY THOSE OF THE 100-DAY ECONOMIC PLAN, DID NOT HAVE ANY IMMEDIATE EFFECTS. NEGATIVE MARKET PROSPECTS ALSO POSTPONED GOI PLANS TO PRIVATIZE SOME STATE-OWNED COMPANIES AND TO SELL PUBLICLY OWNED REAL ESTATE.

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INFO	LOG-00	AID-00	CEA-01	CIAE-00	CTME-00	DODE-00	WHA-00
EAP-00	EUR-00	EXIM-01	E-00	UTED-00	FOE-00	VC-00	
FRB-00	IPS-01	H-01	TEDE-00	INR-00	ITC-01	AC-01	

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TEST-00 TRSE-00 USIE-00 FMP-00 G-00 SAS-00 /008W
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P 181132Z JUN 02
FM AMEMBASSY ROME
TO DEPT OF TREASURY WASHDC PRIORITY
SECSTATE WASHDC 4275
INFO USDOC WASHDC
DEPT OF LABOR WASHDC
EU MEMBER STATES COLLECTIVE
AMEMBASSY OTTAWA
USEU BRUSSELS 2709
AMEMBASSY TOKYO
AMCONSUL MILAN
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¶ 18. THE PUBLIC DEFICIT INCREASED TO 41.4 BILLION EUROS THROUGH MAY 2002, UP 6.9 PERCENT OR 2.7 BILLION EUROS OVER THE CORRESPONDING PERIOD IN 2001. THE GOI MAINTAINS THAT IT WILL BRING DOWN THE DEFICIT TO .5 PERCENT OF GDP IN 2002. FORECASTERS BELIEVE THIS PREDICTION IS TOO OPTIMISTIC. THE MACRO ASSUMPTIONS OF THE GOI BUDGET STRATEGY, THOUGH REVISED DOWNWARD, ARE STILL TOO OPTIMISTIC AND THE PUBLIC DEFICIT IS GROWING FASTER THAN EXPECTED. REASONS INCLUDE LOWER THAN EXPECTED REVENUES FROM SALES OF GOVERNMENT-OWNED REAL ESTATE, AND THE LIMITED NUMBER OF COMPANIES OPERATING IN THE UNDERGROUND THAT HAVE BECOME LEGAL, TAX PAYING ENTITIES. FEW UNDERGROUND COMPANIES HAVE TAKEN ADVANTAGE OF A ONE-TIME PARTIAL TAX FORGIVENESS. THE GOI HAS RECEIVED ONLY FOUR MILLION EUROS IN TAXES FROM COMPANIES THAT CHANGED THEIR STATUS, FAR LESS THAN THE ONE BILLION EUROS EXPECTED.

¶ 19. A ONE-TIME TAX AMNESTY FOR THE REPATRIATION OF UNCLASSIFIED

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CAPITAL SEEMS TO HAVE BEEN SUCCESSFUL. DURING THE NINE-MONTH PROGRAM, REPATRIATED CAPITAL WAS TAXED AT 2.5 PERCENT. THROUGH APRIL, AN ESTIMATED 32.5 BILLION EUROS WERE REPATRIATED, GENERATING TAX REVENUES OF 810 MILLION EUROS.

¶ 20. TO OFFSET IN PART THE HIGHER THAN EXPECTED PUBLIC DEFICIT, THE GOI PRESENTED TO PARLIAMENT IN FEBRUARY A DEFICIT CONTROL PACKAGE AIMED AT RECOVERING 675 MILLION EUROS THIS YEAR AND 2.5 BILLION EUROS NEXT YEAR, RECENTLY CONVERTED INTO LAW. MEASURES INCLUDE:
¶ A. A FIVE-PERCENT CUT IN GOI PAYMENTS TO PHARMACEUTICAL COMPANIES. FINANCE MINISTER TREMONTI EXPECTS THIS MEASURE TO PRODUCE 500 MILLION EUROS IN SAVINGS. PHARMACEUTICAL COMPANIES, INCLUDING U.S.- OWNED FIRMS, HAVE OBJECTED STRONGLY TO THIS PRICE CUT;
¶ B. THE DEADLINE FOR MANY PERSONAL AND CORPORATE TAX PAYMENTS WAS MOVED UP FROM JULY 31 TO JUNE 20;
¶ C. AREFORM OF CASSA DEPOSITI AND PRESTITI, TWO SAVINGS AND LOAN FUNDS, THROUGH THE CREATION OF TWO COMPANIES;
D1. PATRIMONIO DELLO STATO S.P.A., WHICH OWNS STATE- OWNED REAL ESTATE. THE SALE OF SUCH REAL ESTATE IS EXPECTED TO EVENTUALLY GENERATE INCOME EQUAL TO FIVE PERCENT OF GDP;
D2. INFRASTRUTTURE S.P.A., WHICH IS INTENDED TO FINANCE INFRASTRUCTURE AND PUBLIC WORK PROJECTS THROUGH THE ISSUANCE OF BONDS;
¶ E. THE ABOLITION OF TAX INCENTIVES FOR BANK MERGERS.

¶ 21. FINANCE MINISTRY OFFICIALS MAINTAIN THAT A PUBLIC UNCLASSIFIED

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DEFICIT EQUAL TO .5 PERCENT OF GDP WILL BE ACHIEVABLE IF GDP GROWTH IS 2.3 PERCENT. IF GDP GROWTH IS 1.5 PERCENT, THE PUBLIC DEFICIT IS LIKELY TO BE .9 PERCENT OF GDP. IN CONTRAST TO GOVERNMENT EXPECTATIONS, WE ESTIMATE THAT THE PUBLIC DEFICIT WILL BE 1.5 PERCENT IN 2002 AND DECLINE TO ONE PERCENT IN 2003. THIS IS ONE PERCENTAGE POINT ABOVE STABILITY PACT TARGETS FOR 2002 AND 2003. ONLY IF A SUBSTANTIAL DEFICIT REDUCTION PACKAGE IS IMPLEMENTED WILL THE GOI BE NEAR A ZERO PERCENT PUBLIC DEFICIT, AS REQUIRED BY THE EU STABILITY PACT.

¶ 22. AT THE CENTRAL BANKS ANNUAL MEETING, BANK OF ITALY GOVERNOR ANTONIO FAZIO CALLED FOR A SUPPLEMENTARY BUDGET PACKAGE TO BRING PUBLIC FINANCES IN LINE WITH THE STABILITY PACT. FINANCE MINISTER TREMONTI SAID THERE WOULD BE NO CORRECTIVE BUDGET PACKAGE EVEN IF THE PUBLIC DEFICIT CONTINUED TO CLIMB.

STRUCTURAL REFORMS

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[123.](#) CENTRAL BANK GOVERNOR FAZIO ALSO URGED THE GOI TO SPEED UP STRUCTURAL LABOR, PENSION AND TAX REFORMS. OPPOSITION FROM TRADE UNIONS, WHICH HAVE PLAYED A KEY ROLE IN SOCIAL AND ECONOMIC POLICY-MAKING, HAS STALLED PROGRESS ON KEY LABOR AND ECONOMIC REFORMS. ALTHOUGH HE ENJOYS A SECURE MAJORITY IN PARLIAMENT, PM BERLUSCONI SEEKS TO BUILD CONSENSUS RATHER THAN IMPOSE MAJOR CHANGES. SINCE THIS PROCESS WILL TAKE TIME, THE PROSPECT FOR SIGNIFICANT REFORMS IS NOT ROSY. SEE RETTEL A FOR BACKGROUND ON THESE STRUCTURAL REFORMS AND THE PROSPECT FOR CHANGE. ONCE NEGOTIATIONS RESUME, WE EXPECT SOME LABOR REFORM MEASURES WILL BE ENACTED THIS YEAR, BUT THEY WILL HAVE ONLY A MINOR EFFECT ON THE ECONOMIC CLIMATE, AT LEAST IN THE SHORT AND MEDIUM TERM.

[124.](#) PENSION REFORM IS ANOTHER ESSENTIAL STEP FOR LONG TERM ECONOMIC HEALTH. PROPOSED REFORM MEASURES WILL LOOK AT INCENTIVES FOR WORKERS TO WORK PAST RETIREMENT AGE, LOWER CONTRIBUTIONS FOR THE NEWLY EMPLOYED AND THE TRANSFER OF COMPANIES SEVERANCE FUNDS TO PRIVATE UNCLASSIFIED

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PENSION FUNDS.

INFLATIONARY IMPACT OF THE EURO

[125.](#) THE ROUNDING UP OF PRICES FOLLOWING THE EURO CHANGE OVER AND HIGHER PRICES FOR AGRICULTURAL PRODUCTS, WHICH RESULTED FROM AN UNUSUALLY COLD WINTER, PUSHED UP INFLATION IN THE FIRST PART OF THIS YEAR. EXCLUDING THE PRELIMINARY DATA FOR MAY, RETAIL INFLATION WAS 2.4 PERCENT HIGHER IN THE FIRST FOUR MONTHS OF 2002 THAN DURING THE CORRESPONDING PERIOD IN [2001](#).

[126.](#) ACCORDING TO SOME ANALYSTS, HOUSEHOLD CONSUMPTION HAS BEEN DEPRESSED BY A PERCEIVED LOSS FROM THE CONVERSION TO EUROS. ACCORDING TO SOME CONSUMER ASSOCIATIONS, RESTAURANT PRICES INCREASED BY 20 PERCENT AS A RESULT OF THE EURO CHANGE OVER, AND MEAT PRICES JUMPED 10 TO 20 PERCENT AFTER THE FULL CONVERSION OF PRICES FROM LIRE TO EURO.

[127.](#) ACCORDING TO A RECENT POLL CARRIED OUT BY THE LEADING CONSUMER ASSOCIATION, CODACONS, SEVENTY PERCENT OF ITALIANS SURVEYED WOULD LIKE THE LIRA TO RETURN; EIGHTY PERCENT ARE CONVINCED THEY SPEND MORE IN EUROS THAN THEY DID IN LIRA PER MONTH. NINETY PERCENT OF THOSE SURVEYED SAID THEY CALCULATE PRICES AND PUT ACCOUNTS IN LIRA AS WELL AS EUROS. THIRTY PERCENT SAID THAT THEY HAVE PROBLEMS WITH THE NEW BANKNOTES, AND OFTEN CONFUSE THE ONE AND TWO EURO CENT UNCLASSIFIED

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COINS. THIS CONFUSION IS MOST EVIDENT IN THE SOUTH. ACCORDING TO ANOTHER SURVEY CARRIED OUT BY DATAMEDIA, SEVENTY-SIX PERCENT OF PEOPLE SURVEYED SAY THEY SPEND MORE ON THE SAME QUANTITY OF GOODS SINCE THE ADOPTION OF THE EURO. MOREOVER, WITH RESPECT TO DECEMBER 2001, SIXTY PERCENT THINK THAT THE SAME AMOUNT OF INCOME BUYS LESS IN REAL TERMS.

[128.](#) AFTER THE 2.4-2.5 PERCENT PEAKS IN YEAR-TO-YEAR INFLATION REGISTERED IN THE FIRST FOUR MONTHS OF 2002, THE CPI IS EXPECTED TO SLOW, PRODUCING A 2.4 PERCENT AVERAGE INFLATION RATE THIS YEAR. WE EXPECT INFLATION TO DECLINE TO TWO PERCENT IN 2003.

PRIVATIZATION

[129.](#) THE BERLUSCONI GOVERNMENT HAS PROPOSED THE SALE OF STATE-OWNED ENTITIES AND OF GOVERNMENT-OWNED SHARES OF MAJOR COMPANIES, INCLUDING ENERGY COMPANY ENEL AND ENTE TABACCI ITALIANI (ETI - ITALY'S NATIONAL TOBACCO COMPANY.) UNCERTAIN MARKET CONDITIONS HAVE, HOWEVER,

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	NSAE-00	OMB-01	OPIC-01	ACE-00	SP-00	SSO-00	STR-00
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SECSSTATE WASHDC 4277
INFO USDOC WASHDC
DEPT OF LABOR WASHDC
EU MEMBER STATES COLLECTIVE
AMEMBASSY OTTAWA
USEU BRUSSELS 2711
AMEMBASSY TOKYO
AMCONSUL MILAN
AMCONSUL FLORENCE
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DELAYED THE TIMING OF SUCH SALES. WHEN THE MARKET RECOVERS, THE GOVERNMENT HOPES SALES OF GOVERNMENT-OWNED ENTITIES AND SHARES WILL BRING IN 60 BILLION EUROS. THE FIRST GROUP TO BE PRIVATIZED WILL BE THE RESIDUAL STAKE OF TELECOM ITALIA (3.46 PERCENT), THE SALE OF ETI AND 85 PERCENT OF TIRRENA (MARITIME TRANSPORTATION), PLUS THE SALE OF ANOTHER TRANCHE OF ENEL (ELECTRICITY CONGLOMERATE).

LABOR

[¶](#)30. GOVERNMENT DATA FROM JANUARY 2002 SHOW THE QUARTERLY NATIONAL UNEMPLOYMENT RATE AT 9.2 PERCENT, DOWN FROM 10.2 PERCENT OF JANUARY 2001, WHICH IS THE LOWEST LEVEL SINCE 1992. UNEMPLOYMENT DECREASED ALSO IN ABSOLUTE TERMS BY 7.6 PERCENT FROM 2,379,000 IN JANUARY 2001 TO 2,198,000 IN JANUARY 2002.

[¶](#)31. TRADITIONAL REGIONAL DIFFERENCES REMAIN
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UNCHANGED, WITH THE SOUTHERN THIRD OF THE COUNTRY HAVING AN 18.8 PERCENT (20.3 PERCENT IN JANUARY 2001) UNEMPLOYMENT RATE COMPARED TO 3.9 PERCENT IN THE NORTHERN THIRD (4.2 PERCENT IN JANUARY 2001) AND SEVEN PERCENT IN CENTRAL ITALY (EIGHT PERCENT IN JANUARY 2001). EMPLOYMENT INCREASED BY 371,000 PEOPLE FROM 21,273,000 IN JANUARY 2001 TO 21,644,000 IN JANUARY 2002. THIS IS THE RESULT OF AN INCREASE OF 99,000 WORKERS IN THE NORTH-EAST (UP 2.2 PERCENT FROM JANUARY 2001) AND OF 73,000 WORKERS IN THE NORTH WEST (UP 1.2 PERCENT FROM JANUARY 2001), COMBINED WITH AN INCREASE OF 85,000 WORKERS IN THE CENTER (UP TWO PERCENT FROM JANUARY 2001) AND 114,000 WORKERS IN THE SOUTH (UP 1.9 PERCENT).

[¶](#)32. ONE-FIFTH OF TOTAL EMPLOYMENT INVOLVES TEMPORARY OR PART-TIME JOBS, PRIMARILY IN THE SERVICES SECTOR.

[¶](#)33. WE EXPECT UNEMPLOYMENT TO FALL FURTHER, TO BELOW NINE PERCENT OVER THE FORECAST PERIOD.

COMMENT

[¶](#)34. FOR ITALY'S GDP TO REBOUND MORE VIGOROUSLY AND SUPPORT EXPORT GROWTH, THE GOI NEEDS TO MOVE AHEAD WITH CUTS IN PUBLIC SPENDING, ACCELERATE ITS PRIVATIZATION AND INFRASTRUCTURE PROGRAMS, AND ENACT KEY REFORMS IN THE PENSION, LABOR AND TAX SYSTEMS QUICKLY.

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[¶](#)35. ITALY, ALONG WITH THE REST OF THE EU, WILL BENEFIT FROM A MODERATE ECONOMIC RECOVERY EXPECTED OVER THE FORECAST PERIOD. THE SOONER A GLOBAL RECOVERY BEGINS, THE HEALTHIER THE EXPORT-DRIVEN ITALIAN ECONOMY WILL BE. WE SHARE LEADING THINK TANKERS VIEW, INCLUDING THAT OF THE BANK OF ITALY, THAT THE GOI'S OFFICIAL FORECASTS FOR GDP GROWTH, THE BUDGET DEFICIT AND TAX REVENUES ARE OVERLY OPTIMISTIC. THE GOI DESERVES PRAISE FOR BEGINNING TO TACKLE THE THORNY ISSUES OF PENSION AND LABOR MARKET REFORM. EVEN IF THESE REFORMS ARE ADOPTED, HOWEVER, THEIR POSITIVE EFFECTS ON THE ECONOMY WILL BE FELT ONLY BEGINNING IN 2003 OR LATER.

STATISTICAL APPENDIX: TABLE OF CONTENTS

SUMMARY TABLE

[¶](#)1. NATIONAL ACCOUNTS, INDUSTRIAL PRODUCTION,
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PRICES AND LABOR COSTS

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FRB-00	IPS-01	H-01	TEDE-00	INR-00	ITC-01	AC-01
NSAE-00	OMB-01	OPIC-01	ACE-00	SP-00	SSO-00	STR-00
TEST-00	TRSE-00	USIE-00	FMP-00	G-00	SAS-00	/008W

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 EU MEMBER STATES COLLECTIVE
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I.A.GROSS DOMESTIC PRODUCT 2000-2003
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 I.B.INDUSTRIAL PRODUCTION AND
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 I.C.UNEMPLOYMENT RATE, 2000-2003

II. BALANCE OF PAYMENTS

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 III.B.CURRENT ACCOUNT, 2000-2003
 (BILLIONS OF EURO)
 III.C.CURRENT ACCOUNT, 2000-2003
 (USD BILLIONS)

III.PUBLIC FINANCES

III.A.MEASURES OF FISCAL BALANCES, 2000-2003
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 ACCOUNTS BASIS (TRILLIONS OF LIRE)

HISTORICAL SERIES-REAL AND NOMINAL GDP 2000-2003

¶29. TABLES

	2001		2002		2003	
	ANN.	4TH/ AVG	ANN.	4TH/ AVG	ANN.	4TH/ AVG
GDP	1.8	0.6	1.3	2.8	2.4	2.5
DOMESTIC DEMAND	1.6	0.3	1.4	3.0	2.4	2.5
INFLATION	2.8	2.4	2.4	2.4	2.0	2.1
PRODUCER PRICES	2.8	2.4	2.4	2.0	2.1	
PRODUCER PRICES	1.9	-1.0	0.1	1.9	2.3	1.8
UNEMPLOYMENT RATE	9.5	9.3	9.2	9.1	8.9	8.8

PUBLIC ADMINISTRATION (AS PCT OF GDP)	2001			2002			2003					
	EXPENDITURES	47.2	46.8	47.1	REVENUES	45.8	45.4	46.1	DEFICIT	-1.4	-1.5	-1.0
PUBLIC DEBT	109.4		105.0		102.0							

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TRADE ACCOUNT	USD BILL.	15.9	15.4	20.4
PCT OF GDP		1.5	1.4	1.6
CURRENT ACCOUNT	USD BILL.	0.2	3.6	8.6
PCT OF GDP		0.0	0.3	0.7

AVG EXCHANGE RATE

USD/EURO	0.89	0.90	0.97
EURO/USD	1.12	1.11	1.03

¶I. NATIONAL ACCOUNTS, INDUSTRIAL PRODUCTION, PRICES
 AND UNEMPLOYMENT

I.A. GROSS DOMESTIC PRODUCT (PERCENT CHANGE OVER SAME PERIOD YEAR EARLIER, 1995 PRICES) NEW SERIES

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EAP-00	EUR-00	EXIM-01	E-00	UTED-00	FOE-00	VC-00
FRB-00	IPS-01	H-01	TEDE-00	INR-00	ITC-01	AC-01
NSAE-00	OMB-01	OPIC-01	ACE-00	SP-00	SSO-00	STR-00
TEST-00	TRSE-00	USIE-00	FMP-00	G-00	SAS-00	/008W

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I.A.1. ANNUAL

	2000	2001	2002F	2003F
CONSUMPTION .2	2.5	1.4	1.0	2.2
PRIVATE	2.7	1.1	1.3	2.5
PUBLIC	1.7	2.3	0.1	1.0
FIXED INVESTMENT	6.5	2.4	2.5	2.5
CONSTRUCTION	5.6	3.7	2.0	1.7
MACHINES/EQUIPMENT	7.1	1.5	2.8	3.1
EXPORTS	11.7	0.8	1.5	5.7
IMPORTS	9.4	0.2	1.8	6.1
GDP	2.9	1.8	1.3	2.4
ADDITIONUM:				
GROSS ASSET FORMATION	0.9	2.6	2.7	3.3
TOTAL DOMESTIC DEMAND	2.1	1.6	1.4	2.4
FINAL DOMESTIC DEMAND	3.3	1.6	1.3	2.3

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I.B.2. FOURTH QUARTER OVER FOURTH QUARTER

	IV00/ IV99	IV01/ IV00	IV02/ IV01F	IV03/ IV02F
CONSUMPTION	2.5	1.0	2.2	2.1
PRIVATE	2.6	0.3	2.5	2.5
PUBLIC	2.0	2.0	0.9	0.9
FIXED INVESTMENT	3.8	1.8	2.8	3.0
CONSTRUCTION	3.8	3.7	2.5	2.0
MACHINES/EQUIPMENT	3.8	0.6	3.1	3.1
EXPORTS	9.2	-2.5	5.7	6.2
IMPORTS	7.0	-3.8	6.6	6.1
GDP	2.6	0.6	2.8	2.5
ADDITIONUM:				
GROSS ASSET FORMATION	-0.3	-1.2	6.2	3.7
TOTAL DOMESTIC DEMAND	1.9	0.3	3.0	2.5
FINAL DOMESTIC DEMAND	2.8	0.9	2.3	2.3

I.C. INDUSTRIAL PRODUCTION AND PRICE INDICES
PERCENT CHANGE OVER SAME PERIOD YEAR EARLIER

2000 IV00	2001 IV01	2002 IV02	2003 IV03
(F)	(F)	(F)	(F)

INDUSTRIAL PRODUCTION 3.1 1.3 -0.7 2.9 0.5 1.9 3.5 2.3
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INFLATION (IPCA) 2.5 2.7 2.8 2.4 2.4 2.4 2.0 2.1

PRODUCER PRICES(PPI) 6.0 6.5 1.9 -1.0 0.1 1.9 2.3 1.8

GDP DEFLATOR 2.2 2.7 2.6 3.3 2.0 1.5 1.0 1.0

I.D. UNEMPLOYMENT RATE 1999-2003

1999	2000	2001	2002(F)	2003(F)
------	------	------	---------	---------

YEAR	11.4	10.6	9.5	9.2	8.9
4TH QTR	11.1	10.0	9.3	9.1	8.8

II. BALANCE OF PAYMENTS

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FRB-00	IPS-01	H-01	TEDE-00	INR-00	ITC-01	AC-01
NSAE-00	OMB-01	OPIC-01	ACE-00	SP-00	SSO-00	STR-00
TEST-00	TRSE-00	USIE-00	FMP-00	G-00	SAS-00	/008W

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II.A. FOREIGN TRADE PRICES AND QUANTITIES
(PERCENTAGE CHANGE FROM PREVIOUS YEAR, LIRE PRICES)

	2000	2001	2002	2003
			(F)	(F)
EXPORT VOLUME	11.1	0.1	1.5	5.7
UNIT VALUE	6.0	3.3	0.5	2.3
IMPORT VOLUME	10.0	-0.3	1.8	6.1
UNIT VALUE	14.2	0.5	0.6	1.0
TERMS OF TRADE	-7.2	-2.9	-0.1	1.3
2.7				

II.B. CURRENT ACCOUNT (BILLIONS OF EURO)

	2000	2001	2002	2003
			(F)	(F)
TRADE BALANCE	10.4	17.8	17.1	21.1
EXPORTS FOB	260.9	270.9	276.2	298.5
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IMPORTS FOB 250.5 253.1 259.1 277.4
BALANCE AS PCT.
OF GDP 0.9% 1.5% 1.4% 1.6%

INVISIBLES -16.7 -18.0 -13.1 -12.2
SERVICES 1.1 0.3 0.7 1.0
INCOMES -13.1 -11.6 -10.5 -9.7
NET TRANSFERS -4.7 -6.7 -3.3 -3.5

CURRENT ACCOUNT -6.3 -0.2 5.0 8.4
PCT OF GDP -0.5% 0.3% 0.4% 0.6%

AVERAGE EXCHANGE RATES
(EURO/USD) 1.08 1.12 1.11 1.03
(USD/EURO) 0.92 0.90 0.90 0.97

II.C. CURRENT ACCOUNT (USD BILLION)

	2000	2001	2002	2003
			(F)	(F)
TRADE BALANCE	9.6	15.9	15.3	20.4
EXPORTS FOB	241.1	242.6	248.5	288.9
IMPORTS FOB	231.5	226.7	233.2	268.5
BALANCE AS PCT. OF GDP	0.9%	1.5%	1.4%	1.6%
INVISIBLES SERVICES	-15.4 1.1	-16.1 0.3	-11.8 0.6	-11.8 1.0
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INCOMES -12.1 -10.4 -9.4 -9.4
NET TRANSFERS -4.4 -6.0 -3.0 -3.4

CURRENT ACCOUNT -5.8 -0.2 3.6 8.6
PCT OF GDP -0.5% 0.0% 0.3% 0.7%

III. PUBLIC FINANCES

MEASURES OF FISCAL BALANCES, 2000-2003

III. A. 1. PUBLIC ADMINISTRATION - NATIONAL
ACCOUNTS BASIS (BILLIONS OF EURO)

	REVENUES	EXPENSES	BALANCE	PRIMARY BALANCE
2000	520,828	540,891	-20,063	54,870
PCT OF GDP	44.7	46.4	-1.7	4.7
2001	557,203	574,817	-17,614	54,870

PCT OF GDP 45.8 47.3 -1.5 4.5

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FRB-00 IPS-01 H-01 TDE-00 INR-00 ITC-01 AC-01
NSAE-00 OMB-01 OPIC-01 ACE-00 SP-00 SSO-00 STR-00
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SECSTATE WASHDC 4281
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USEU BRUSSELS 2715
AMEMBASSY TOKYO
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2002 (F)	569,990	588,209	-18,219	57,350
PCT OF GDP	45.4	46.8	-1.5	4.6
2003 (F)	598,572	611,558	-12,986	58,805
PCT OF GDP	46.1	47.1	-1.0	4.5

IV. HISTORICAL SERIES-REAL AND NOMINAL GDP 2000-2003
(MILLIONS OF EURO)

PERIOD	GDP (1995 PRICES)	GDP (CURRENT PRICES)
ES)		
2000	1,012,804	1,164,766
Y/Y CHG	2.9%	5.1%
2001	1,030,911	1,216,581
Y/Y CHG	1.8%	4.4%
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2002	1,044,145 1,256,471
Y/Y CHG	1.3% 3.3%
2003	1,068,891 1,298,570
Y/Y CHG	2.4% 3.4%

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